GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:351
ANSWERED ON:07.09.2007
HIGH RATE CT INTEREST BY NON GOVERNMENT FINANCIAL INSTITUTIONS ON TERM DEPOSIT
Athawale Shri Ramdas

Will the Minister of FINANCE be pleased to state:

(a) whether the Government is aware that some non-Governmental Financial Institutions are offering 10-15 percent rate of interest on their term deposit schemes in various metropolitan cities particularly in Delhi;

(b) if so, the details thereof;

(c) whether any Government agency has approved the rate of interest proposed by these institutions;

(d) if so, the details thereof;

(e) if not, the reasons therefor; and

(f) the steps taken by the Government to check the exploitation of the small investors from such Institutions?

Answer

FINANCE MINISTER (SHRI P. CHIDAMBARAM)

(a) to (f) : A statement is laid on the Table of the House.

STATEMENT FOR LOK SABHA STARRED QUESTION NO. 351 FOR 07.09.2007 REGARDING HIGH RATE OF INTEREST BY NON-GOVERNMENT FINANCIAL, INSTITUTIONS ON TERM DEPOSIT TABLED BY SHRI RAMDAS ATHAWALE, M.P.

(a) to (e): There is no classification as Non-Government Financial Institutions as per the Reserve Bank of India Act, 1934.Keeping in view the prevailing interest rates in the entire financial system,Reserve Bank of India (RBI) has, with effect irom April 24, 2007, revised the maximum interest rate payable on public deposits by Non-Banking Financial Companies (NBFCs) (other than Residuary Non-Banking Financial Companies) from 11% per annum to 12.5% per annum. The new rate of interest is applicable to fresh public deposits as well as to renewals of matured public deposits. : RBI has reported that they have not come across any advertisement by NBFCs offering interest rates above 12.5% on term deposit schemes.

(f) : In order to afford greater protection to depositors of NBFCs, RBI has made it mandatory for NBFCs to comply with Non-Banking Financial Companies and Miscellaneous Non-Banking Companies Advertisement Rules, 1977 and provide other disclosures for soliciting public deposits. NBFCs have been advised to create floating charge on their liquid assets in favour of depositors and put in place a Fair Practices Code with the approval of their Board of Directors. Guidelines on corporate governance have also been issued by RBI to all NBFCs with deposit size of Rs. 20 crore and above to increase the confidence of investors.RBI has been taking action against NBFCs which have either not complied with provisions of the RBI Act or are financially weak. Such action includes prohibiting the companies from carrying on activities of a Non-Banking Financial Company and from accepting deposits and alienating assets. RBI has, so far, filed 84 winding up petitions, 70 criminal proceedings and 27 Police complaints against NBFCs.